

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5704

BATES TECHNICAL COLLEGE

Agency No. 695

Special Audit

January 1, 1995 Through June 30, 1996

Issue Date: November 1, 1996

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Background

On July 11, 1996, officials of Bates Technical College notified the Office of State Auditor of an apparent misappropriation of public funds from cash receipts at the student book store by one cashier. As a result, we immediately commenced a special audit of the cash receipt transactions processed by this one employee.

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Scope and Opinion

This report represents the results of our audit of cash receipts at the student book store of Bates Technical College for the period January 1, 1995, through June 30, 1996. The purpose of our audit was to determine if cash receipts from the student book store were properly accounted for and deposited with the college business office.

Our audit was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. This audit was conducted under the authority of *Revised Code of Washington (RCW) 43.09.330*.

The scope of our audit was limited to determining whether all cash receipts at the student book store were properly accounted for and controlled. The scope of our work was not sufficient to enable us to express an opinion on the college's financial statements, and we do not express an opinion on the financial position or results of operations of Bates Technical College.

In our opinion, as detailed in the following finding, the lack of adequate internal controls over cash receipts in the student book store allowed the misappropriation of at least \$26,093 in public funds from Bates Technical College.

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Schedule Of Findings

1. Public Funds Were Misappropriated From The Student Book Store

On July 11, 1996, Bates Technical College notified the State Auditor of an apparent misappropriation of college funds in the school book store. The college had detected some irregularities while performing the daily cash reconciliation for the book store.

Our audit of the financial records of the student book store revealed that at least \$26,093 in public funds was misappropriated by a cashier during the period January 1, 1995, through June 30, 1996. There were no federal funds involved in this case. These funds were misappropriated as described below.

The cashier processed fictitious transactions on the cash register to eliminate the accountability for cash receipts collected from customers. These false transactions included voids and refunds for merchandise returns. A corresponding amount of cash was then taken by the cashier.

The cashier was responsible for recording transactions on the cash register, counting the cash at the end of the day, and preparing a reconciliation report for the change fund and cash receipts. All funds and the reconciliation report were then turned in to the college business office. When we interviewed the cashier on July 26, 1996, she declined to discuss these irregularities with us on the advice of legal counsel. Her employment with the college was subsequently terminated on September 25, 1996.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer.

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

- (1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her, or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account, or

(4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than 15 years.

The following internal control weaknesses allowed a cashier in the student book store to conceal these losses without being detected by college management officials.

- a. While voids and refunds are high risk transaction types, these transactions were not regularly reviewed by a supervisor in the student book store or the college business office to ensure they were for valid reasons and were supported by appropriate documentation.
- b. The college did not review or monitor the number and amount of void and refund transactions by individual cashier.

During the audit, college officials immediately implemented new controls to process and monitor bookstore cash transactions.

Bates Technical College has a personnel dishonesty bonding policy for all employees. However, this loss was not covered by the bonding company because it was less than the deductible provision of the policy.

We recommend Bates Technical College seek recovery of the misappropriated \$26,093 and related audit/investigation costs from the student book store cashier. We further recommend the Washington State Office of the Attorney General and the Pierce County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.330.

We also recommend Bates Technical College review overall accounting controls in the student book store, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

Auditee's Response

Since becoming a college in 1991, Bates Technical College has established a system of procedures and internal controls to safeguard assets, check the accuracy and reliability of financial data, promote operational efficiency, and encourage adherence to college and state policies for financial controls. This has been evidenced by the fact that Bates has received no findings or questioned costs in the annual state audits for the past four consecutive years.

The college is committed to maintaining the highest level of integrity and meeting all required state regulations regarding the administration of the college. However, it is understood that an incident or transaction may occur which violates college and state policies.

In just such an instance, on July 11, 1996, the college immediately notified the State Auditor's Office of an apparent misappropriation of college funds in the Bookstore operation. The college had observed irregularities while performing the daily cash reconciliation for the bookstore and, as a result, immediate changes to the bookstore transaction cash process and necessary controls were implemented. Additional information led to the college suspecting a misappropriation and to request the assistance of the State Auditor's Office. The college also took personnel action regarding the employee in compliance with all legal and bargaining agreement requirements.

During the investigation, the college has cooperated to the fullest extent by securing and providing all records to your office and identifying further questionable transactions.

As indicated, Bates has taken measures to implement effective controls through supervisory review and approval, securing appropriate documentation for void and refund transactions, and through the monitoring of such by the college Business Office.

Also, it is the college's intent to seek the recovery of funds through all available remedies.

The college appreciates the assistance and professionalism of the State Auditor's Office in conducting this investigation. Bates Technical College is highly concerned about the incident resulting in the finding and will take all measures possible to ensure the safeguarding of public assets.

Thank you for your cooperation.

Auditor's Concluding Remarks

We appreciate the college's assistance during the audit.